

Capital Budget

Capital Budget.....	2-3
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Capital Investments and Debt Service

The Commonwealth's five-year capital investment plan is updated annually shortly after the operating budget has been released. The Executive Office for Administration and Finance (A&F) develops this five-year capital investment plan in conjunction with an annual debt affordability analysis to help ensure Massachusetts continues to borrow responsibly.

The Commonwealth's capital program is funded primarily through bond proceeds. As such, the total size of the capital program is determined primarily by the amount of debt the Commonwealth can afford to issue and pay in debt service. The Commonwealth must pay principal and interest costs on the bonds it issues to fund its capital investment program. These annual debt service expenses on outstanding Commonwealth bonds are funded each year in the Commonwealth's annual operating budget. The fiscal year 2016 budgeted debt service figure, \$2.308 billion, displays the capital program impact on the operating budget. It should be noted that a large majority of the \$2.308 billion funds decades of previous capital infrastructure investment, while only a small portion funds debt service requirements based on new debt issuances.

For additional information regarding the Commonwealth's outstanding debt, please reference the Commonwealth's disclosure information at: <http://www.massbondholder.com/real-time-disclosure/information-statement/long-term-liabilities-capital-investment-plan>.

The Fiscal Year 2016-2020 Capital Investment Plan

The Baker-Polito Administration will file its first five-year capital investment plan on or by July 1, 2015, as required by statute. This five-year plan will establish an annual spending limit, known as the "bond cap," for each of the next five years and will outline the Administration's transportation, environmental, housing and infrastructure investment priorities for fiscal year 2016 and beyond. On behalf of the Governor, A&F will engage in a diligent, fiscally responsible, and comprehensive process to develop a plan that supports job growth, private development, and local infrastructure.

Impact of Capital Plan on the Operating Budget

Each year, as part of the annual development of the capital investment plan, A&F evaluates the operating budget impacts for all requested projects. Every capital spending request must show the incremental and ongoing annual operating costs/savings that are expected to be incurred upon completion of the project. The decision on whether to fund a capital project depends on A&F's assessment of not only the programmatic need for the project, but also the affordability of the related operating costs.

The Baker-Polito Administration's fiscal year 2016 budget recommendation includes \$37.7 million of funding to transfer operating expenses at the Massachusetts Department of Transportation (MassDOT) off of the capital plan and onto the operating budget. This investment furthers MassDOT's three-year commitment to eliminate the costly practice of paying for operating costs with capital funding.

